

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-------------------------|---|--------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name VILLAGE OF RAVENNA | County MUSKEGON |
| Fiscal Year End 12/31/07 | Opinion Date 5/20/08 | Date Audit Report Submitted to State 5/27/08 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

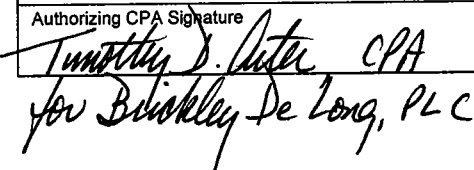
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|---|-------------------------------------|--|-------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | NONE | |
| Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC | | Telephone Number (231) 726-5800 | |
| Street Address 316 MORRIS AVE., SUITE 500 | | City MUSKEGON | State MI |
| | | Zip 49443 | |
| Authorizing CPA Signature  for Brickley De Long, PLC | | Printed Name TIMOTHY D. ARTER | License Number 10253 |

Village of Ravenna
Muskegon County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended December 31, 2007

Village of Ravenna

TABLE OF CONTENTS

| | |
|--|----------|
| Management’s Discussion and Analysis..... | i - viii |
| Independent Auditors’ Report..... | 1 |
| Basic Financial Statements | |
| Government-wide Financial Statements | |
| Statement of Net Assets | 2 |
| Statement of Activities | 3 |
| Fund Financial Statements | |
| Governmental Funds | |
| Balance Sheet | 4 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets | 5 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | 6 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities | 7 |
| Proprietary Funds | |
| Statement of Net Assets | 8 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets | 9 |
| Statement of Cash Flows..... | 10 |
| Notes to Financial Statements | 11 |
| Required Supplementary Information | |
| Budgetary Comparison Schedule—General Fund..... | 24 |
| Budgetary Comparison Schedule—Major Streets Fund..... | 25 |

As management of the Village of Ravenna, we present to the readers of the Village's financial statements this overview and analysis of the financial activities of the Village of Ravenna for the fiscal year ended December 31, 2007. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the Village of Ravenna had total assets of \$2,769,773 and total liabilities of \$66,227 leaving net assets of \$2,703,546, an increase of 7.5% in overall net assets.
- Of the total \$2,703,546 in net assets, the Village may use \$599,055 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors.
- Total revenues, including all program and general revenues, were \$1,006,050, made up of governmental revenues of \$670,797 and business-type revenues of \$335,253. Revenues for the Village's DDA were \$13,963.
- Total expenses for all of the Village's programs were \$819,469. Of that total, the governmental expenses were \$528,340 and the business-type expenses were \$291,129. The Village's DDA did not have any expenses.
- Mortimer Street was reconstructed for \$259,348 with the assistance of a grant from the Michigan Department of Transportation.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Village's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the Village include general government, public safety, public works and cultural and recreational activities. The business-type activities of the Village include water distribution and sewer services.

The government-wide financial statements include not only the Village of Ravenna (the primary government) but also the legally separate discretely presented component unit. The board of this organization is appointed by the Village and given the interrelation of the two; there is some potential liability for the Village due to the Village's potential pledge of its full faith and credit for future debt obligations. The financial information of this component unit is reported in a separate column from the financial information of the primary government itself.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories—governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Village of Ravenna maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Major Streets Fund, which are considered to be major funds.

Proprietary Funds. The Village of Ravenna has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its water distribution and sewer operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provided separate information for Water and Sewer funds, both of which are major funds.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budgetary information as it relates to the actual expenditures for the General Fund and Major Streets Fund.

Government-wide Financial Analysis

The first table presented on the next page is a summary of the government-wide Statement of Net Assets for the Village of Ravenna. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of December 31, 2007, the Village's net assets from governmental activities totaled \$1,424,489 (52.9%) and \$1,279,057 (47.1%) from business-type activities, creating a total government-wide net assets total of \$2,703,546.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., infrastructure, buildings, land, vehicles, equipment, etc). These assets are used to provide services to the Village's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities are \$227,248. This represents the amount of discretionary cash or investments that can be used for general governmental operations.

The business-type activities show a total of \$1,279,057 in net assets and \$371,807 (29%) in unrestricted net assets. The Sewer Fund and Water Fund unrestricted net assets are \$55,633 and \$316,174, respectively.

Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|--------------|-----------------------------|--------------|--------------|--------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Current assets | \$ 394,344 | \$ 496,913 | \$ 389,595 | \$ 387,112 | \$ 783,939 | \$ 884,025 |
| Capital assets | 1,068,584 | 830,244 | 917,250 | 922,674 | 1,985,834 | 1,752,918 |
| Total assets | 1,462,928 | 1,327,157 | 1,306,845 | 1,309,786 | 2,769,773 | 2,636,943 |
| Current liabilities | 38,439 | 45,125 | 27,788 | 45,853 | 66,227 | 90,978 |
| Noncurrent liabilities | - | - | - | 29,000 | - | 29,000 |
| Total liabilities | 38,439 | 45,125 | 27,788 | 74,853 | 66,227 | 119,978 |
| Net assets | | | | | | |
| Invested in capital assets, net of related debt | 1,068,584 | 830,244 | 907,250 | 858,674 | 1,975,834 | 1,688,918 |
| Restricted | 128,657 | 171,913 | - | - | 128,657 | 171,913 |
| Unrestricted | 227,248 | 279,875 | 371,807 | 376,259 | 599,055 | 656,134 |
| Total net assets | \$ 1,424,489 | \$ 1,282,032 | \$ 1,279,057 | \$ 1,234,933 | \$ 2,703,546 | \$ 2,516,965 |

Current assets decreased for governmental activities as the Village spent current assets to fulfill the matching requirements of the Mortimer Street reconstruction grant. Correspondingly, capital assets increased for governmental activities with the completion of this infrastructure project.

Assets remained steady for business-type activities, while both current and non-current liabilities decreased as the Village made scheduled debt service payments.

Governmental Activities

Governmental activities net assets increased by \$142,457 (11%) during the 2007 fiscal year. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

Revenues and expenditures of governmental activities were fairly consistent for most categories. The Village received a capital grant for the road project in 2007; no similar grant was received in 2006. Miscellaneous revenue increased due to the contributions from a local non-profit. Property tax revenue is up due to go growth in taxable values. General government expenses increased due to work on the Village's master plan and also for work on its website. Public works expenses increased due to some significant repair work on the Village's equipment and higher depreciation with the completion of improvements on Mortimer Street. Culture and recreation expenses are up due to increased salaries for work done at Conklin Park and operating supplies.

Business-type activities

At the end of the fiscal year, the net assets for business-type activities increased by \$44,124 or 3.6%. Two funds comprise the business-type activities. The Sewer Fund experienced an increase in net assets for the year totaling \$23,372. The Water Fund experienced an increase in net assets for the year totaling \$20,752.

Revenues and expenditures of business-type activities were fairly consistent for most categories. Sewer expenses were lower due to overtime spent fixing sewer lines during the 2006 fiscal year. Water expenses were higher due to more repairs on one of the Villages three wells.

Change in Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|----------------------------|--------------|-----------------------------|--------------|--------------|--------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 48,094 | \$ 49,303 | \$ 323,070 | \$ 314,476 | \$ 371,164 | \$ 363,779 |
| Operating grants | 120,634 | 117,865 | - | - | 120,634 | 117,865 |
| Capital grants | 133,868 | - | - | - | 133,868 | - |
| General revenues | | | | | | |
| Property taxes | 225,398 | 220,971 | - | - | 225,398 | 220,971 |
| Grants and contributions | | | | | | |
| not restricted | 97,884 | 97,754 | - | - | 97,884 | 97,754 |
| Unrestricted investment | | | | | | |
| earnings | 4,164 | 6,222 | 12,183 | 10,666 | 16,347 | 16,888 |
| Miscellaneous | 34,575 | 21,730 | - | - | 34,575 | 21,730 |
| Gain on sale of assets | 6,180 | - | - | - | 6,180 | - |
| Total revenues | 670,797 | 513,845 | 335,253 | 325,142 | 1,006,050 | 838,987 |
| Expenses: | | | | | | |
| General government | 75,228 | 59,145 | - | - | 75,228 | 59,145 |
| Public safety | 22,401 | 24,132 | - | - | 22,401 | 24,132 |
| Public works | 352,771 | 303,329 | - | - | 352,771 | 303,329 |
| Culture and recreation | 77,940 | 70,511 | - | - | 77,940 | 70,511 |
| Sewer Fund | - | - | 116,873 | 142,988 | 116,873 | 142,988 |
| Water Fund | - | - | 174,256 | 142,709 | 174,256 | 142,709 |
| Total expenses | 528,340 | 457,117 | 291,129 | 285,697 | 819,469 | 742,814 |
| Change in net assets | 142,457 | 56,728 | 44,124 | 39,445 | 186,581 | 96,173 |
| Net assets - Beginning | 1,282,032 | 1,225,304 | 1,234,933 | 1,195,488 | 2,516,965 | 2,420,792 |
| Net assets - Ending | \$ 1,424,489 | \$ 1,282,032 | \$ 1,279,057 | \$ 1,234,933 | \$ 2,703,546 | \$ 2,516,965 |

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2007 fiscal year, the Village's governmental funds reported a combined unreserved fund balance of \$350,000. This number represents the unreserved fund balances of \$221,343 in the General Fund, \$103,250 in the Major Streets Fund and \$25,407 in the Local Streets Fund. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Village's discretion. The remainder of the fund balance of \$5,905 is reserved to indicate that it is not available for new spending because it has already been committed to enforcement activities. When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$355,905, which consists of fund balances of \$227,248 in the General Fund, \$103,250 in the Major Streets Fund and \$25,407 in the Local Streets Fund.

Proprietary Funds. The Village proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Sewer Fund increased \$23,372 and the Water fund increased by \$20,752. The result was an overall increase in the proprietary funds of \$44,124. Ending net assets of the Sewer Fund and Water Fund were \$770,503 and \$508,554, respectively.

General Fund Budget

During the current fiscal year, the Village made no amendments to its original budget.

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- Property tax revenue was less than budget due to a smaller increase in taxable value than expected.
- State intergovernmental revenue was \$7,242 below the budgeted amount because state shared revenue did not increase.
- Charges for services was less than budgeted because the Village's other funds did not rent as much equipment from the General Fund as in prior years.

Capital Assets Administration

The Village of Ravenna's investment in capital assets for its governmental and business-type activities as of December 31, 2007 totaled \$1,985,834 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery, equipment and vehicles.

Major capital asset events during the current fiscal year included the following:

- The reconstruction of Mortimer Street for \$259,348.
- The Village finished the building restrooms at Conklin Park.
- The Village purchased new equipment consisting of a chipper, plow truck, and park equipment for \$27,341.
- A new backhoe purchased, which was financed by a trade-in of equipment along with \$8,000.
- Two vehicles were sold at public auction for \$6,180.
- The Village began planning and designing a bridge on Main Street which they hope to construct in the summer of 2009.

**Capital Assets
(Net of Accumulated Depreciation)**

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|----------------------------|-------------------|-----------------------------|-------------------|---------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Land | \$ 15,000 | \$ 15,000 | \$ 32,963 | \$ 32,963 | \$ 47,963 | \$ 47,963 |
| Construction in progress | 14,182 | 11,692 | 43,400 | 8,000 | 57,582 | 19,692 |
| Land improvements | 30,457 | 32,419 | - | - | 30,457 | 32,419 |
| Buildings and improvements | 65,905 | 51,616 | - | - | 65,905 | 51,616 |
| Furniture and equipment | 103,646 | 92,391 | - | - | 103,646 | 92,391 |
| Vehicles | 30,906 | 25,212 | - | - | 30,906 | 25,212 |
| Infrastructure | 808,488 | 601,914 | - | - | 808,488 | 601,914 |
| Sewer system | - | - | 683,070 | 712,906 | 683,070 | 712,906 |
| Water system | - | - | 157,817 | 168,805 | 157,817 | 168,805 |
| Total | <u>\$ 1,068,584</u> | <u>\$ 830,244</u> | <u>\$ 917,250</u> | <u>\$ 922,674</u> | <u>\$ 1,985,834</u> | <u>\$ 1,752,918</u> |

Additional information on the Village's capital assets can be found in Note D of the "Notes to Financial Statements" of this report.

Long-Term Debt

At the end of the 2007 fiscal year, the Village of Ravenna had total outstanding debt of \$10,000 consisting of revenue bonds. The payment of this debt is anticipated through the revenues generated from the water and sewer services in the enterprise funds. All revenue bonds will be retired in 2008.

The Village's total debt decreased by \$54,000 during the fiscal year. This reduction was due to regularly scheduled debt payments.

Additional information on the Village's long-term debt can be found in Note F of the "Notes to Financial Statements" of this report.

General Economic Overview

The General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised 71% of the General Fund revenue sources in 2007. In 2008, property taxes are expected to increase by at least one percent due to increases in taxable value and statutory state shared revenue is expected increase by four percent while constitutional state shared revenue is expected to be flat.

The 2008 budget includes the purchase of equipment in the amount of \$32,500 and the resealing of multiple streets for \$57,000. Other operating expenditures are expected to be similar to 2007.

Requests for Information

This financial report is designed to provide a general overview of the Village of Ravenna's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Village of Ravenna, 12090 Crockery Creek Drive, Ravenna, Michigan, 49451, (231) 853-2360.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

May 20, 2008

To the Honorable President and
Members of the Village Council
Village of Ravenna
Ravenna, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Ravenna as of and for the year ended December 31, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Ravenna's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Ravenna, as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - viii and 24 - 25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Village of Ravenna
STATEMENT OF NET ASSETS
December 31, 2007

| ASSETS | | | | Component unit |
|--|----------------------------|-----------------------------|--------------|--------------------------------------|
| | Governmental activities | Business-type activities | Total | Downtown Development Authority |
| CURRENT ASSETS | | | | |
| Cash and investments | \$ 285,364 | \$ 397,392 | \$ 682,756 | \$ 5,718 |
| Receivables | 27,822 | 23,239 | 51,061 | - |
| Due from other governmental units | 50,122 | - | 50,122 | 8,766 |
| Internal balances | 31,036 | (31,036) | - | - |
| Due from primary government | - | - | - | 13,658 |
| Total current assets | 394,344 | 389,595 | 783,939 | 28,142 |
| NONCURRENT ASSETS | | | | |
| Capital assets, net | | | | |
| Nondepreciable | 29,182 | 76,363 | 105,545 | - |
| Depreciable | 1,039,402 | 840,887 | 1,880,289 | - |
| Total noncurrent assets | 1,068,584 | 917,250 | 1,985,834 | - |
| Total assets | 1,462,928 | 1,306,845 | 2,769,773 | 28,142 |
| LIABILITIES AND NET ASSETS | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued liabilities | 24,781 | 17,788 | 42,569 | - |
| Due to component unit | 13,658 | - | 13,658 | - |
| Bonds and other obligations, due within one year | - | 10,000 | 10,000 | - |
| Total liabilities | 38,439 | 27,788 | 66,227 | - |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 1,068,584 | 907,250 | 1,975,834 | - |
| Restricted for streets | 128,657 | - | 128,657 | - |
| Unrestricted | 227,248 | 371,807 | 599,055 | 28,142 |
| Total net assets | \$ 1,424,489 | \$ 1,279,057 | \$ 2,703,546 | \$ 28,142 |

The accompanying notes are an integral part of this statement.

Village of Ravenna
STATEMENT OF ACTIVITIES
For the year ended December 31, 2007

| Functions/Programs | Net (Expense) Revenue and Changes in Net Assets | | | | | | | |
|--|---|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|--------------|--------------------------------|
| | Expenses | Program Revenue | | | Primary Government | | | Component unit |
| | | Charges for services | Operating grants and contributions | Capital grants and contributions | Governmental activities | Business-type activities | Total | Downtown Development Authority |
| Primary government | | | | | | | | |
| Governmental activities | | | | | | | | |
| General government | \$ 75,228 | \$ 2,689 | \$ - | \$ - | \$ (72,539) | \$ - | \$ (72,539) | \$ - |
| Public safety | 22,401 | - | - | - | (22,401) | - | (22,401) | - |
| Public works | 352,771 | 45,405 | 120,634 | 133,868 | (52,864) | - | (52,864) | - |
| Culture and recreation | 77,940 | - | - | - | (77,940) | - | (77,940) | - |
| Total governmental activities | 528,340 | 48,094 | 120,634 | 133,868 | (225,744) | - | (225,744) | - |
| Business-type activities | | | | | | | | |
| Sewer | 116,873 | 136,037 | - | - | - | 19,164 | 19,164 | - |
| Water | 174,256 | 187,033 | - | - | - | 12,777 | 12,777 | - |
| Total business-type activities | 291,129 | 323,070 | - | - | - | 31,941 | 31,941 | - |
| Total primary government | \$ 819,469 | \$ 371,164 | \$ 120,634 | \$ 133,868 | (225,744) | 31,941 | (193,803) | - |
| Component unit | | | | | | | | |
| Downtown Development Authority | | | | | | | | |
| Economic development | \$ - | \$ - | \$ - | \$ - | - | - | - | - |
| General revenues | | | | | | | | |
| Property taxes | | | | | 225,398 | - | 225,398 | 13,853 |
| Grants and contributions not restricted to specific programs | | | | | 97,884 | - | 97,884 | - |
| Unrestricted investment earnings | | | | | 4,164 | 12,183 | 16,347 | 110 |
| Miscellaneous | | | | | 34,575 | - | 34,575 | - |
| Gain on sale of capital assets | | | | | 6,180 | - | 6,180 | - |
| Total general revenues | | | | | 368,201 | 12,183 | 380,384 | 13,963 |
| Change in net assets | | | | | 142,457 | 44,124 | 186,581 | 13,963 |
| Net assets at January 1, 2007 | | | | | 1,282,032 | 1,234,933 | 2,516,965 | 14,179 |
| Net assets at December 31, 2007 | | | | | \$ 1,424,489 | \$ 1,279,057 | \$ 2,703,546 | \$ 28,142 |

The accompanying notes are an integral part of this statement.

Village of Ravenna
BALANCE SHEET
Governmental Funds
December 31, 2007

| | General Fund | Major Streets Fund | Other governmental fund | Total governmental funds |
|---|-------------------|--------------------------|-------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and investments | \$ 166,973 | \$ 95,738 | \$ 22,653 | \$ 285,364 |
| Receivables | | | | |
| Accounts | 3,617 | - | - | 3,617 |
| Taxes | 24,205 | - | - | 24,205 |
| Due from other governmental units | 33,733 | 12,638 | 3,751 | 50,122 |
| Due from other funds | 31,036 | - | - | 31,036 |
| Total assets | <u>\$ 259,564</u> | <u>\$ 108,376</u> | <u>\$ 26,404</u> | <u>\$ 394,344</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 15,711 | \$ 4,642 | \$ 725 | \$ 21,078 |
| Accrued liabilities | 2,947 | 484 | 272 | 3,703 |
| Due to component unit | 13,658 | - | - | 13,658 |
| Total liabilities | 32,316 | 5,126 | 997 | 38,439 |
| Fund balances | | | | |
| Reserved for enforcement activities - permits | 5,905 | - | - | 5,905 |
| Unreserved, undesignated | | | | |
| General Fund | 221,343 | - | - | 221,343 |
| Special revenue funds | - | 103,250 | 25,407 | 128,657 |
| Total fund balances | 227,248 | 103,250 | 25,407 | 355,905 |
| Total liabilities and fund balances | <u>\$ 259,564</u> | <u>\$ 108,376</u> | <u>\$ 26,404</u> | <u>\$ 394,344</u> |

The accompanying notes are an integral part of this statement.

Village of Ravenna
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
December 31, 2007

| | | |
|---------------------------------------|----|---------|
| Total fund balance—governmental funds | \$ | 355,905 |
|---------------------------------------|----|---------|

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

| | | | |
|--------------------------|------------------|--|------------------|
| Cost of capital assets | \$ 1,742,596 | | |
| Accumulated depreciation | <u>(674,012)</u> | | <u>1,068,584</u> |

| | | |
|--|----|-------------------------|
| Net assets of governmental activities in the Statement of Net Assets | \$ | <u><u>1,424,489</u></u> |
|--|----|-------------------------|

The accompanying notes are an integral part of this statement.

Village of Ravenna
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended December 31, 2007

| | General Fund | Major Streets Fund | Other governmental funds | Total governmental funds |
|--|--------------------------|--------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Property taxes | \$ 225,398 | \$ - | \$ - | \$ 225,398 |
| Licenses and permits | 2,689 | - | - | 2,689 |
| Intergovernmental revenues | | | | |
| Federal | - | 18,788 | - | 18,788 |
| State | 97,884 | 207,265 | 24,900 | 330,049 |
| Charges for services | 92,003 | - | - | 92,003 |
| Investment earnings | 4,163 | 3,525 | 24 | 7,712 |
| Other | <u>34,575</u> | <u>-</u> | <u>-</u> | <u>34,575</u> |
| Total revenues | 456,712 | 229,578 | 24,924 | 711,214 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 67,694 | - | - | 67,694 |
| Public safety | 20,742 | - | - | 20,742 |
| Public works | 215,428 | 66,505 | 21,285 | 303,218 |
| Culture and recreation | 61,912 | - | - | 61,912 |
| Other governmental functions | 30,875 | - | - | 30,875 |
| Capital outlay | <u>63,868</u> | <u>264,968</u> | <u>-</u> | <u>328,836</u> |
| Total expenditures | <u>460,519</u> | <u>331,473</u> | <u>21,285</u> | <u>813,277</u> |
| Excess of revenues over (under) expenditures | (3,807) | (101,895) | 3,639 | (102,063) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | 6,180 | - | - | 6,180 |
| Transfers in | - | 55,000 | - | 55,000 |
| Transfers out | <u>(55,000)</u> | <u>-</u> | <u>-</u> | <u>(55,000)</u> |
| Total other financing sources (uses) | <u>(48,820)</u> | <u>55,000</u> | <u>-</u> | <u>6,180</u> |
| Net change in fund balances | (52,627) | (46,895) | 3,639 | (95,883) |
| Fund balances at January 1, 2007 | <u>279,875</u> | <u>150,145</u> | <u>21,768</u> | <u>451,788</u> |
| Fund balances at December 31, 2007 | <u><u>\$ 227,248</u></u> | <u><u>\$ 103,250</u></u> | <u><u>\$ 25,407</u></u> | <u><u>\$ 355,905</u></u> |

The accompanying notes are an integral part of this statement.

Village of Ravenna
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended December 31, 2007

| | | |
|--|--|-------------|
| Net change in fund balances—total governmental funds | | \$ (95,883) |
|--|--|-------------|

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

| | | | |
|----------------------|----------------|---------|--|
| Depreciation expense | \$ (75,227) | | |
| Capital outlay | <u>368,549</u> | 293,322 | |

| | | |
|--|--|-----------------|
| Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets. | | <u>(54,982)</u> |
|--|--|-----------------|

| | | |
|---|--|--------------------------|
| Change in net assets of governmental activities | | <u><u>\$ 142,457</u></u> |
|---|--|--------------------------|

The accompanying notes are an integral part of this statement.

Village of Ravenna
STATEMENT OF NET ASSETS
 Proprietary Funds
 December 31, 2007

ASSETS

| | Business-type Activities - Enterprise funds | | |
|--|---|-------------------|---------------------|
| | Sewer | Water | Total |
| CURRENT ASSETS | | | |
| Cash and investments | \$ 75,510 | \$ 321,882 | \$ 397,392 |
| Accounts receivable | 11,736 | 11,503 | 23,239 |
| Total current assets | 87,246 | 333,385 | 420,631 |
| NONCURRENT ASSETS | | | |
| Capital assets | | | |
| Land | 31,800 | 1,163 | 32,963 |
| Machinery and equipment | 16,042 | 16,042 | 32,084 |
| Plants and infrastructure | 1,290,067 | 416,698 | 1,706,765 |
| Construction in progress | - | 43,400 | 43,400 |
| Less accumulated depreciation | (623,039) | (274,923) | (897,962) |
| Net capital assets | 714,870 | 202,380 | 917,250 |
| Total assets | 802,116 | 535,765 | 1,337,881 |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | 500 | 14,999 | 15,499 |
| Accrued liabilities | 1,111 | 1,178 | 2,289 |
| Due to other funds | 30,002 | 1,034 | 31,036 |
| Bonds and other obligations, due within one year | - | 10,000 | 10,000 |
| Total liabilities | 31,613 | 27,211 | 58,824 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 714,870 | 192,380 | 907,250 |
| Unrestricted | 55,633 | 316,174 | 371,807 |
| Total net assets | \$ 770,503 | \$ 508,554 | \$ 1,279,057 |

The accompanying notes are an integral part of this statement.

Village of Ravenna
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the year ended December 31, 2007

| | Business-type Activities - Enterprise funds | | |
|---|---|------------|--------------|
| | Sewer | Water | Total |
| REVENUES | | | |
| Charges for services | \$ 134,037 | \$ 183,535 | \$ 317,572 |
| OPERATING EXPENSES | | | |
| Operations | 84,831 | 162,480 | 247,311 |
| Depreciation | 29,836 | 10,988 | 40,824 |
| Total operating expenses | 114,667 | 173,468 | 288,135 |
| Operating income | 19,370 | 10,067 | 29,437 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Investment earnings | 4,207 | 7,976 | 12,183 |
| Connection fees | 2,000 | 3,497 | 5,497 |
| Interest expense | (2,205) | (788) | (2,993) |
| Total nonoperating revenues (expenses) | 4,002 | 10,685 | 14,687 |
| Change in net assets | 23,372 | 20,752 | 44,124 |
| Net assets at January 1, 2007 | 747,131 | 487,802 | 1,234,933 |
| Net assets at December 31, 2007 | \$ 770,503 | \$ 508,554 | \$ 1,279,057 |

The accompanying notes are an integral part of this statement.

Village of Ravenna
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended December 31, 2007

| | Business-type Activities - Enterprise funds | | |
|--|---|------------|------------|
| | Sewer | Water | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 133,927 | \$ 163,942 | \$ 297,869 |
| Receipts from interfund services provided | 1,008 | 19,778 | 20,786 |
| Payments to suppliers | (51,912) | (91,226) | (143,138) |
| Payments to employees | (30,195) | (42,574) | (72,769) |
| Payment for interfund services used | (100) | (19,170) | (19,270) |
| Net cash provided by operating activities | 52,728 | 30,750 | 83,478 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Collections of trash fees owed to the General Fund | 11,495 | - | 11,495 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Connection fees | 2,000 | 3,497 | 5,497 |
| Purchases of capital assets | - | (35,400) | (35,400) |
| Principal paid on capital debt | (44,000) | (10,000) | (54,000) |
| Interest paid on capital debt | (2,205) | (788) | (2,993) |
| Net cash used for capital and related financing activities | (44,205) | (42,691) | (86,896) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Investment earnings | 4,207 | 7,976 | 12,183 |
| Net increase (decrease) in cash and investments | 24,225 | (3,965) | 20,260 |
| Cash and investments at January 1, 2007 | 51,285 | 325,847 | 377,132 |
| Cash and investments at December 31, 2007 | \$ 75,510 | \$ 321,882 | \$ 397,392 |
| Reconciliation of operating income to net cash provided by operating activities | | | |
| Operating income | \$ 19,370 | \$ 10,067 | \$ 29,437 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | | |
| Depreciation expense | 29,836 | 10,988 | 40,824 |
| Change in assets and liabilities | | | |
| Accounts receivable | 898 | 185 | 1,083 |
| Internal balances | 9,170 | (3,971) | 5,199 |
| Accounts payable | (6,839) | 13,220 | 6,381 |
| Accrued liabilities | 293 | 261 | 554 |
| Net cash provided by operating activities | \$ 52,728 | \$ 30,750 | \$ 83,478 |

The accompanying notes are an integral part of this statement.

Village of Ravenna
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Ravenna (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

Reporting Entity

The Village is a municipal corporation governed by an elected five-member Village Council and is administered by a village manager appointed by the Village Council. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. The discretely presented component unit has a December 31 fiscal year end.

Discretely presented component unit

Downtown Development Authority (DDA). The DDA board is appointed by the Village Council, but the Authority operates as a separate entity. The board can authorize and issue debt independent from the Village. The component unit is presented as a governmental fund type.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Ravenna
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund is used to account for gas and weight tax allocations to the Village by the Michigan Department of Transportation for construction and maintenance of the Village's major streets.

The Village has only one other governmental fund, the Local Streets Fund.

The Village reports the following two major proprietary funds:

The Sewer Fund operates the Village's sewage pumping station and collection systems.

The Water Fund operates the Village's water distribution system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Village of Ravenna
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Village's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Village reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Village intends to hold the investment until maturity.

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the Village's investment pool.

Village of Ravenna
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Village bills and collects its own property taxes but does not collect taxes for any other taxing unit. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Village to the County for collection. The County advances the Village all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Village. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 state taxable value for real/personal property of the Village totaled approximately \$27,053,000 of which approximately \$656,000 was captured by the component unit. The ad valorem taxes levied consisted of 8.2764 mills for the Village's operating purposes. This amount is recognized in the General Fund with captured amounts shown in the DDA.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Village of Ravenna
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets—Continued

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the Village chose to include all such items regardless of their acquisition date or amount. The Village was able to estimate the historical cost of the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year).

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 20-40 |
| Plant and systems | 30-50 |
| Infrastructure | 20 |
| Land improvements | 20 |
| Equipment | 5-20 |
| Vehicles | 5-10 |

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Village of Ravenna
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to November 1, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Prior to January 1, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Village Council.

The appropriated budget is prepared by fund, function and department. The Village's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level for the General Fund and the fund level for all other governmental funds.

Excess of Expenditures Over Appropriations

During the year ended December 31, 2007, actual expenditures exceeded appropriations in the Major Streets by \$111,193. Those overexpenditures were funded with a capital grant.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The Village has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Village does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Village investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of December 31, 2007, \$565,349 of the Village's bank balance of \$765,349 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Village of Ravenna
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk - investments. The Village does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Village is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

| | Balance January 1, 2007 | Additions | Deductions | Balance December 31, 2007 |
|---|-------------------------------|------------|------------|---------------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 15,000 | \$ - | \$ - | \$ 15,000 |
| Construction in progress | 11,692 | 14,182 | 11,692 | 14,182 |
| Total capital assets, not being depreciated | 26,692 | 14,182 | 11,692 | 29,182 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 39,246 | - | - | 39,246 |
| Buildings and improvements | 169,239 | 17,830 | - | 187,069 |
| Furniture and equipment | 125,738 | 73,881 | 61,950 | 137,669 |
| Infrastructure | 1,004,347 | 259,348 | - | 1,263,695 |
| Vehicles | 92,158 | 15,000 | 21,423 | 85,735 |
| Total capital assets, being depreciated | 1,430,728 | 366,059 | 83,373 | 1,713,414 |
| Less accumulated depreciation: | | | | |
| Land improvements | 6,827 | 1,962 | - | 8,789 |
| Buildings and improvements | 117,623 | 3,541 | - | 121,164 |
| Furniture and equipment | 33,347 | 7,644 | 6,968 | 34,023 |
| Infrastructure | 402,433 | 52,774 | - | 455,207 |
| Vehicles | 66,946 | 9,306 | 21,423 | 54,829 |
| Total accumulated depreciation | 627,176 | 75,227 | 28,391 | 674,012 |
| Total capital assets, being depreciated, net | 803,552 | 290,832 | 54,982 | 1,039,402 |
| Capital assets, net | \$ 830,244 | \$ 305,014 | \$ 66,674 | \$ 1,068,584 |

Village of Ravenna
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE D—CAPITAL ASSETS—Continued

| | Balance January 1, 2007 | Additions | Deductions | Balance December 31, 2007 |
|---|-------------------------------|------------|------------|---------------------------------|
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 32,963 | \$ - | \$ - | \$ 32,963 |
| Construction in progress | 8,000 | 35,400 | - | 43,400 |
| Total capital assets, not being depreciated | 40,963 | 35,400 | - | 76,363 |
| Capital assets, being depreciated: | | | | |
| Sewer system | 1,290,067 | - | - | 1,290,067 |
| Water system | 416,698 | - | - | 416,698 |
| Machinery and equipment | 32,084 | - | - | 32,084 |
| Total capital assets, being depreciated | 1,738,849 | - | - | 1,738,849 |
| Less accumulated depreciation: | | | | |
| Sewer system | 587,455 | 28,232 | - | 615,687 |
| Water system | 258,187 | 9,384 | - | 267,571 |
| Machinery and equipment | 11,496 | 3,208 | - | 14,704 |
| Total accumulated depreciation | 857,138 | 40,824 | - | 897,962 |
| Total capital assets, being depreciated, net | 881,711 | (40,824) | - | 840,887 |
| Capital assets, net | \$ 922,674 | \$ (5,424) | \$ - | \$ 917,250 |

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

| | |
|------------------------|------------------|
| General government | \$ 1,960 |
| Public works | 70,018 |
| Culture and recreation | 3,249 |
| | <u>\$ 75,227</u> |

Business-type activities:

| | |
|-------|------------------|
| Sewer | \$ 29,836 |
| Water | 10,988 |
| | <u>\$ 40,824</u> |

Village of Ravenna
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2007 is as follows:

Due to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|------------------|
| General Fund | Sewer Fund | \$ 30,002 |
| General Fund | Water Fund | <u>1,034</u> |
| | | <u>\$ 31,036</u> |

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Due from/to primary government and component units:

The General Fund owes the DDA \$13,658 for property taxes.

Interfund Transfers

During the year ended December 31, 2007, the General Fund transferred \$55,000 to the Major Streets Fund for street improvements.

NOTE F—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Village for the year ended December 31, 2007.

| | <u>Balance January 1, 2007</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance December 31, 2007</u> | <u>Due within one year</u> |
|----------------------------------|--|------------------|-------------------|--|--------------------------------|
| Business-type activities: | | | | | |
| Revenue bonds | \$ <u>64,000</u> | \$ <u>-</u> | \$ <u>54,000</u> | \$ <u>10,000</u> | \$ <u>10,000</u> |

Revenue bonds:

\$100,000 Water Revenue Bonds of 1998; final payment
of \$10,000 due May 2008; interest at 5.25%

\$ 10,000

Village of Ravenna
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE F—LONG-TERM DEBT—Continued

For governmental activities, claims and judgments are generally liquidated by the General Fund.

The Village was in compliance in all material respects with all the revenue bond ordinances at December 31, 2007.

Annual debt service requirements to maturity for debt outstanding as of December 31, 2007 follows:

| Year ending December 31, | Business-type activities | |
|-----------------------------|--------------------------|----------|
| | Principal | Interest |
| 2008 | \$ 10,000 | \$ 263 |

NOTE G—OTHER INFORMATION

Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Village pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Village of Ravenna
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE H—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The Village is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Village. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Village of Ravenna
12090 Crockery Creek Drive
Ravenna, MI 49451

Funding Policy. Village employees are required to contribute 3 to 5 percent to the Plan depending on employee contract. The Village is required to contribute at an actuarially-determined rate of 5.12 percent of covered wages.

Annual Pension Cost. For the year ended December 31, 2007, the Village's annual pension cost was approximately \$8,800 which the Village contributed. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

| <u>Year ending</u> | <u>Approximate annual pension cost (APC)</u> | <u>Percentage of APC contributed</u> | <u>Net pension obligation</u> |
|--------------------|--|--|-----------------------------------|
| 12/31/05 | \$ 9,000 | 100 % | \$ - |
| 12/31/06 | 9,000 | 100 | - |
| 12/31/07 | 8,800 | 100 | - |

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

| <u>Actuarial valuation date</u> | <u>Actuarial value of assets</u> | <u>Actuarial Accrued Liability (AAL) Entry Age</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded ratio</u> | <u>Covered payroll</u> | <u>UAAL as a percentage of covered payroll</u> |
|---|--|--|------------------------------------|-------------------------|----------------------------|--|
| 12/31/04 | \$ 213,941 | \$ 267,110 | \$ (53,169) | 80 % | \$ 153,581 | 35 % |
| 12/31/05 | 239,088 | 281,376 | (42,288) | 85 | 158,644 | 27 |
| 12/31/06 | 269,702 | 310,054 | (40,352) | 87 | 161,704 | 25 |

Village of Ravenna
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2007

NOTE H—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Deferred Compensation Plan

The Village offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time Village employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

REQUIRED SUPPLEMENTARY INFORMATION

Village of Ravenna
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended December 31, 2007

| | Budgeted amounts | | | Variance with final budget- positive (negative) |
|--|--------------------|--------------------|-------------------|--|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Property taxes | \$ 237,173 | \$ 237,173 | \$ 225,398 | \$ (11,775) |
| Licenses and permits | 8,102 | 8,102 | 2,689 | (5,413) |
| Intergovernmental revenues - State | 105,126 | 105,126 | 97,884 | (7,242) |
| Charges for services | 103,201 | 103,201 | 92,003 | (11,198) |
| Fines and forfeitures | 500 | 500 | - | (500) |
| Investment earnings | 5,534 | 5,534 | 4,163 | (1,371) |
| Other | <u>30,121</u> | <u>30,121</u> | <u>34,575</u> | <u>4,454</u> |
| Total revenues | 489,757 | 489,757 | 456,712 | (33,045) |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | | | | |
| Village Council | 10,200 | 10,200 | 7,570 | 2,630 |
| Elections | 1,700 | 1,700 | 1,483 | 217 |
| Attorney | 20,500 | 20,500 | 20,268 | 232 |
| Clerk | 5,700 | 5,700 | 5,135 | 565 |
| Treasurer | 4,700 | 4,700 | 4,135 | 565 |
| Building and grounds | 29,700 | 29,700 | 29,103 | 597 |
| Public safety | | | | |
| Police and fire protection | 19,058 | 19,058 | 19,058 | - |
| Building, plumbing, electrical and mechanical inspectors | 8,400 | 8,400 | 1,684 | 6,716 |
| Public works | | | | |
| Department of public works | 140,300 | 140,300 | 136,917 | 3,383 |
| Street lighting | 35,000 | 35,000 | 32,089 | 2,911 |
| Sanitation | 47,000 | 47,000 | 46,422 | 578 |
| Culture and recreation | | | | |
| Parks | 73,500 | 73,500 | 61,912 | 11,588 |
| Other governmental functions | | | | |
| Insurance and bonds | 26,500 | 26,500 | 22,888 | 3,612 |
| Engineering | 1,000 | 1,000 | 416 | 584 |
| Employer payroll taxes | 7,600 | 7,600 | 7,571 | 29 |
| Capital outlay | <u>64,000</u> | <u>64,000</u> | <u>63,868</u> | <u>132</u> |
| Total expenditures | <u>494,858</u> | <u>494,858</u> | <u>460,519</u> | <u>34,339</u> |
| Excess of revenues over (under) expenditures | (5,101) | (5,101) | (3,807) | 1,294 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | - | - | 6,180 | 6,180 |
| Transfers out | <u>(55,000)</u> | <u>(55,000)</u> | <u>(55,000)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(55,000)</u> | <u>(55,000)</u> | <u>(48,820)</u> | <u>6,180</u> |
| Net change in fund balance | <u>\$ (60,101)</u> | <u>\$ (60,101)</u> | <u>(52,627)</u> | <u>\$ 7,474</u> |
| Fund balance at January 1, 2007 | | | <u>279,875</u> | |
| Fund balance at December 31, 2007 | | | <u>\$ 227,248</u> | |

Village of Ravenna
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE

Major Streets Fund
For the year ended December 31, 2007

| | Budgeted amounts | | | Variance with final budget- positive (negative) |
|--|---------------------------|---------------------------|--------------------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u></u> |
| REVENUES | | | | |
| Intergovernmental revenues | | | | |
| Federal | \$ - | \$ - | \$ 18,788 | \$ 18,788 |
| State | 96,019 | 96,019 | 207,265 | 111,246 |
| Investment earnings | 1,580 | 1,580 | 3,525 | 1,945 |
| Other | <u>820</u> | <u>820</u> | <u>-</u> | <u>(820)</u> |
| Total revenues | 98,419 | 98,419 | 229,578 | 131,159 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public works | 70,280 | 70,280 | 66,505 | 3,775 |
| Capital outlay | <u>150,000</u> | <u>150,000</u> | <u>264,968</u> | <u>(114,968)</u> |
| Total expenditures | <u>220,280</u> | <u>220,280</u> | <u>331,473</u> | <u>(111,193)</u> |
| Excess of revenues over (under) expenditures | (121,861) | (121,861) | (101,895) | 19,966 |
| OTHER FINANCING SOURCES | | | | |
| Transfers in | <u>55,000</u> | <u>55,000</u> | <u>55,000</u> | <u>-</u> |
| Net change in fund balance | <u><u>\$ (66,861)</u></u> | <u><u>\$ (66,861)</u></u> | (46,895) | <u><u>\$ 19,966</u></u> |
| Fund balance at January 1, 2007 | | | <u>150,145</u> | |
| Fund balance at December 31, 2007 | | | <u><u>\$ 103,250</u></u> | |

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

May 20, 2008

To the Honorable President and
Members of the Village Council
Village of Ravenna
Ravenna, Michigan

In planning and performing our audit of the financial statements of the Village of Ravenna as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Ravenna's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of the Village Council, management, others within the Village, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

Recommendation 1: Bank reconciliations should be prepared on a timely basis.

During our testing, we noted that bank reconciliations were not prepared on a timely basis. Bank reconciliations serve as a control procedure to determine that the general ledger cash account activity is in agreement with the bank statement activity for the same period.

The timely performance of effective bank procedures would ensure the timely detection of either errors committed by bank and/or Village personnel in the recording and reporting of cash transactions or unauthorized bank activities.

Recommendation 2: Bank reconciliations should be reviewed and approved.

During our testing, we noted that bank reconciliations were not being reviewed and approved. This review procedure is necessary to determine whether all bank and general ledger activity for each month has been properly reconciled and that any unusual reconciling items have been investigated and resolved.

The review and approval of bank reconciliations by an appropriate official would ensure the timely detection of either errors committed by bank and/or Village personnel in the recording and reporting of cash transactions or unauthorized bank activities.

Recommendation 3: All journal entries should have documented approval by an appropriate Village official.

During our testing, we noted that documented proper approval of journal entries did not exist for all journal entries.

The maintenance of files with documented approval of all journal entries would reduce the possibility of an inaccurate journal entry being made.

Recommendation 4: More care should be taken to prevent the double payment of invoices.

During our testing, we noted instances where invoices were paid twice. Disbursements should be made only from the original invoice.

Improving procedures surrounding bill payments would reduce the possibility of an invoice being paid twice.

Recommendation 5: Budgets should be monitored and amended throughout the year.

During our testing, we noted that the Village received a grant for street improvements. The budget in the Major Streets Fund was not amended to recognize the revenue and expenditures from this grant. Consequently, the Village had a significant budget violation in this fund.

Amending budgets as plans change is a good management tool and would also help to ensure compliance with Michigan Public Act 2 of 1968, as amended.